

### Enterprise Funds

Increasingly, communities are establishing enterprise funds for their business type services (e.g., water, sewer, trash disposal, ambulance services, skating rinks, pools, golf courses, airports, dock and wharf facilities). By vote of the city council with the approval of the mayor or by town meeting, an enterprise is adopted. An enterprise fund (MGL Chapter 44, Section 53F½) establishes a separate accounting and financial reporting mechanism for municipal services for which a fee is charged in exchange for goods or services. Under enterprise accounting, the revenues and expenditures of the service are segregated into a separate fund with its own financial statements, rather than commingled with the revenues and expenses of all other governmental activities.

Enterprise accounting allows a community to demonstrate to the public the total cost of providing a service. With all the direct and indirect costs (e.g., interdepartmental support, health and insurance costs), debt service and capital expenditures associated with providing the service in a consolidated fund, the community will be able to readily identify the true cost of the service. To support the service, a community may choose to recover total costs through user charges (rates), through a partial subsidy from the tax levy (e.g., a Proposition 2½ debt exclusion) or from other available funds.

At year-end, the performance of an enterprise fund is measured in terms of positive (surplus) and negative (deficit) operations. An operating surplus is the result of revenue collected in excess of estimates and appropriation turnbacks, and translates into retained earnings that are maintained in the fund rather than closing to the general fund. Retained earnings of an enterprise fund are certified by the Director of Accounts as an available fund after the submission of a June 30<sup>th</sup> balance sheet to DLS.

Once certified, retained earnings may be appropriated **only** for expenditures relating to the enterprise fund. Conversely, if during the year, the enterprise fund incurs an operating loss, the loss must be raised in the subsequent year's budget.

With the consolidation of revenues and costs of the service and information on the operating performance (positive or negative) of the fund, the community will have useful information to make decisions on user charges and other budgetary items. The community will be able to analyze how much the user fees and charges support the service and to what extent if any the tax levy or other available revenues are needed to subsidize the enterprise fund. The community will also be able to include the fixed assets and infrastructure of the enterprise as assets in the financial statements and recognize the annual depreciation of these assets.

Establishing an enterprise does not create a separate or autonomous entity from the municipal government operation. Like every other department, a budget is prepared that is

reviewed and analyzed by the finance committee. The budget, as well as any transfers among the enterprise fund's line item appropriations, requires action by the mayor and council or town meeting. And, the municipal department operating the enterprise service continues to fulfill financial and managerial reporting requirements.

For further information on enterprise funds, please refer to our [Enterprise Fund Manual](#).